

Message Text

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PAGE 01 LONDON 07257 091113Z
ACTION EUR-12

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SUBJECT: FT ARTICLE SAYS SAUDIS WILL CONSIDER OIL PRICE
RISE

BEGIN UNCLASSIFIED

1. FOLLOWING IS TEXT OF AN ARTICLE BY RICHARD JOHNS,
DATELINED MAY 8, APPEARING ON THE FRONT PAGE OF TODAY'S
FINANCIAL TIMES.

QUOTE SAUDI ARABIA WILL, IT IS UNDERSTOOD, CONSIDER
A NOMINAL INCREASE IN THE OIL PRICE AT NEXT MONTH'S
CONFERENCE OF THE ORGANIZATION OF PETROLEUM EXPORTING
COUNTRIES.

AT THE END OF THE INFORMAL OPEC MINISTERIAL CONFER-
ENCE SHEIKH AHMED ZAKI YAMANI, SAUDI MINISTER OF OIL,
DID NOT CONCEDE AS MUCH--INDEED, HE RAISED THE QUESTION
AS TO WHEN MARKET CONDITIONS WOULD ALLOW ANY RISE IN
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PAGE 02 LONDON 07257 091113Z

REAL TERMS. HOWEVER, THERE APPEARS TO BE MORE FLEXI-
BILITY IN THE SAUDI POSITION THAN ITS PUBLIC STANCE
WOULD SUGGEST.

HAVING PROVED ITS DECISIVE STRENGTH AT THE CARACAS
MEETING LAST DECEMBER AND AT DOHA A YEAR EARLIER, SAUDI
ARABIA DOES NOT WANT TO JEOPARDISE THE SPIRIT OF
COOPERATION WHICH HAS BEEN RESTORED AT THE "INFORMAL"

CONFERENCE HELD HERE OVER THE WEEKEND TO DISCUSS LONGER-TERM PRICING AND PRODUCTION STRATEGY.

MOREOVER, THE KINGDOM MAY FEEL SOME CONCESSION IS NECESSARY TO SATISFY HARD-LINE MEMBER STATES SUCH AS IRAQ, LIBYA AND ALGERIA, WHICH FEEL BITTERLY AGGRIEVED BY THE EROSION OF THEIR PURCHASING POWER FROM PETROLEUM REVENUE BECAUSE OF THE DOLLAR'S DEPRECIATION.

THE ECONOMIC DEPARTMENT OF OPEC'S SECRETARIAT HAS CALCULATED THE FALL IN THE VALUE OF MEMBERS' DOLLAR TRADE WEIGHTED EARNINGS FROM THE BEGINNING OF 1977 (WHEN THE LAST ACROSS THE BOARD RISE TOOK PLACE) UNTIL APRIL OF THIS YEAR AT 18 PER CENT.

IN A SPEECH JUST OVER TWO WEEKS AGO CROWN PRINCE FAHD RE-STATED SAUDI OPPOSITION TO "EXCESSIVE INCREASES." THESE, HE SAID, WERE AGAINST THE COUNTRY'S OWN INTERESTS BUT ALSO INVOLVED TAKING "RISKS WITH REGARD TO OUR FRIENDS IN OPEC."

IN AN INTERVIEW WITH THE BEIRUT DAILY AL BAYRAQ THIS WEEKEND, HE EXPRESSED THE KINGDOM'S CONFIDENCE IN THE DOLLAR, BUT HE ADDED: "SAUDI ARABIA'S COMMITMENT TO THE DOLLAR MEANS THAT ANY COMPENSATION WOULD HAVE TO BE IN THE FORM OF A PERCENTAGE INCREASE."

PUBLICLY, HOWEVER, SHEIKH YAMANI WAS STILL PREDICTING YESTERDAY THAT THERE WOULD BE NO RISE IN OIL PRICES THIS YEAR.

HEADS OF DELEGATIONS OF SAUDI ARABIA, IRAN,
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PAGE 03 LONDON 07257 091113Z

VENEZUELA, IRAQ, KUWAIT, AND ALGERIA ARE EXPECTED TO MEET BEFORE THE GENEVA CONFERENCE. SHEIKH YAMANI BELIEVES THAT THEY WILL BE IN A POSITION TO SUBMIT RECOMMENDATIONS IN ABOUT A YEAR WHEN, IT IS HOPED, THE OIL GLUT WILL BE OVER AND DEMAND WILL HAVE PICKED UP.
END QUOTE.

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2. RICHARD JOHNS IS REGARDED AS AN ACCURATE AND WELL-INFORMED JOURNALIST. HOWEVER, U.K. DEPT. OF ENERGY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS CHRISTOPHER LUCAS SAID THE ARTICLE CONFLICTS WITH THE IMPRESSION HE HAS GAINED OVER THE LAST TWO DAYS. HE DOES NOT TAKE THE PURPORTED SAUDI PRICE FLEXIBILITY TOO SERIOUSLY AND BELIEVES THE ARTICLE OVERREACTS TO THE HEDGING NORMALLY EVIDENT IN SAUDI STATEMENTS. SOURCES IN THE FOREIGN AND COMMONWEALTH OFFICE, THE SHELL GROUP, AND BRITISH PETROLEUM HOLD SIMILAR VIEWS.

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